



PROPOSED CAPITAL IMPROVEMENT PLAN POLICY & PROCEDURES

Introduction:

Harris County Budget Management Department (“BMD”) is proposing a new set of policies and procedures for the scoping and approval of the County’s Capital Improvements Plan (“CIP”).

The aim of these changes is to promote:

- i. Increased transparency and standardization in the approval and reporting on the status of capital projects, individually and in totality, by Commissioners Court and the public
- ii. Consistency and accountability for each CIP project throughout its development lifecycle and across departments
- iii. Alignment in the allocation of capital resources with Commissioners Court strategic objectives
- iv. Understanding financial ramifications of a given project individually and within the broader context of the County’s financial resources and commitments

The proposed new process would apply to general fund departments seeking CIP funds as well as the Harris County Flood Control District “FCD” and the Harris County Toll Road Authority (HCTRA). If adopted, these procedures could be implemented for new capital projects immediately. The process for evaluating existing projects in the CIP is discussed below.

Background:

Commissioners Court has identified increased transparency and accountability in the CIP as areas in need of review. There is little consistency in how projects become part of the CIP. Further, there is not presently a standard to which a project must adhere before consideration and no consistent process for ensuring that projects are formally approved by Commissioners Court. Further, outside of the Mid-Year and annual transmittals, there is not presently a regular cadence of transmitting summary CIP updates to Commissioners Court for informational or approval purposes. A standardized manner of monitoring and reporting to Commissioners Court as to the status (timing and budget) of capital projects would provide policy makers with better information to make informed decisions on the need for, proper scope and financial consequences of a capital investment.

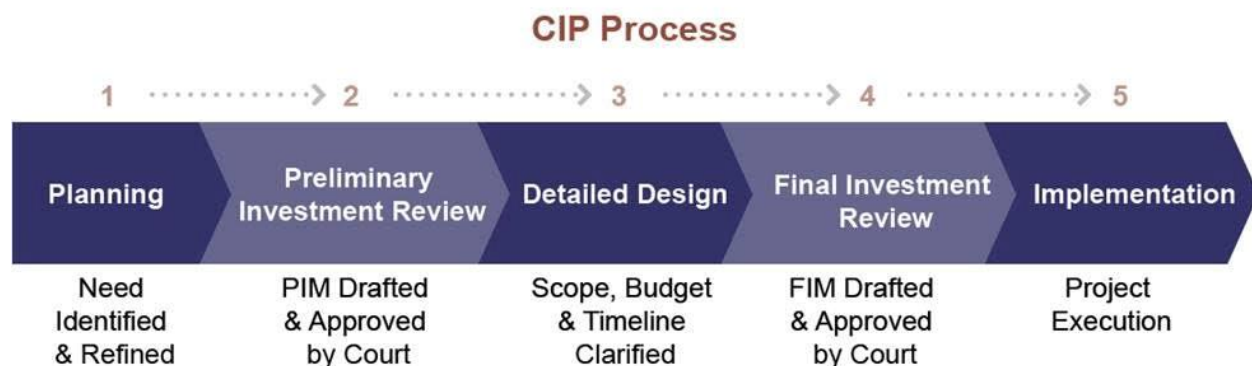
Proposed Policy Framework for CIP

Today, the countywide CIP program is largely used for flood control, the toll road system, and to support County owned buildings. The CIP process should focus capital spending towards strategic projects that help the county meet the goals and objectives set out by Commissioners Court.

The proposed framework envisions a five-stage capital project development lifecycle: Planning, Preliminary Investment Review, Detailed Design, Final Investment Review, and Implementation. Most projects would come before Commissioners Court for approval at least twice.¹ A proposed

project would come before Commissioners Court for approval first on the basis of a Preliminary Investment Memo (“PIM”), which could include authorization to spend a limited budget to develop a complete project development plan and costing during the Detailed Design phase. If the sponsoring department, after study during the Detailed Design phase and in conjunction with the relevant County departments (e.g., OCE, US, Purchasing, etc.) and BMD, continues to believe the project is necessary and proper, it will present a Final Investment Memo (“FIM”) to Commissioners Court for consideration and approval.¹ At this point, the project will be considered approved and would move into the implementation phase.

FCD already uses a similar development lifecycle for their capital projects (<https://www.hcfcd.org/Activity/2018-Bond-Program/Project-Lifecycle>). The process described below is comparable to how FCD projects come to court.



I. Planning:

Once a department has identified a potential need for resources that might result in a capital project, it would initiate a planning process leveraging in-house County resources at minimal cost. The requesting department would be encouraged to utilize the relevant expertise of the Office of County Engineer (“OCE”) for standard construction costs, Universal Services (“US”) for consultation regarding enterprise software purchasing, IT/datacom or fleet needs, and BMD for financial analysis. Sponsoring departments would receive the support of relevant departments to describe the need for a project and produce a preliminary scope, timeline and cost for a project they would like to be considered for the CIP. The end result of this Planning phase would be an informed decision to either forgo the potential project, pursue an alternative that does not require a County capital expenditure or, if the project continues be necessary in the view of the sponsoring department, the production of a PIM for consideration by Commissioners Court.

II. Preliminary Investment Review:

Following consultation with internal stakeholders, the requesting department would produce a Preliminary Investment Memo (“PIM”), using a template provided by BMD, that describes the departmental need, the County goals being met through the project, project requirements, alternatives considered, preliminary project budget based on informed estimates, development timeline as well as proposed next steps, which may include a request for approval to engage outside expertise on some aspects of detailed design. This document would describe these needs

¹ Capital projects that do not require outside funding for design, such as equipment purchases, may progress directly to producing an FIM for Commissioners Court consideration. Due to the size and nature of the 2018 Bond projects, Court has authorized staff augmentation and FCD may spend capital dollars on preliminary design work prior to a Preliminary Investment Memo.

in 1-2 pages, and Commissioners Court would consider the proposal and could vote to approve a project for Preliminary Approval. Departments would be able to submit PIMs and related requests for approval as a Commissioners Court item at any time throughout the year.

Document	Responsible Party	Contents
Preliminary Investment Memo	Sponsoring Department	<ul style="list-style-type: none"> • Project Description • Justification • Project Scope • Alternatives and Engagement • Anticipated Project Expenditures and Timeline

Projects receiving PIM approval would proceed to Detailed Design, with the any authorization to spend the amount approved in the memo on external vendors as needed. Departments must follow County purchasing guidelines regarding third-party spending including in terms of MWBE participation and purchasing, and it is suggested that the Purchasing Department be consulted during the development of the PIM. Coincident with the submission of the PIM, BMD will submit for Commissioners Court approval the proposed funding source(s) to complete the Detailed Design Phase (e.g., Commercial Paper (“CP”) program, PIC Fund, General Fund, etc.). Consistent with current practice, any issuance of Commercial Paper would require Commissioners Court approval of a CP letter authorizing such.

III. Detailed Design:

Upon approval of a PIM, the sponsoring department would be authorized to proceed to the Detailed Design phase, which would be defined in terms of time and cost in the PIM. The purpose of Detailed Design is to further refine the scope, budget, and timeline for a project and solicit community and stakeholder input. The Detailed Design phase should ultimately result in the production of a Final Investment Memo (“FIM”). Final Investment Memos should build upon the work done during Project Scoping and should solidify the estimates developed during the prior stage, refined estimates for any necessary vendors and include outreach to impacted stakeholders including community impact. Any procurement efforts needed to obtain detailed scoping or cost estimates for a project approved in a PIM should take place during this stage. Subject to Purchasing rules, Commissioners Court approval may be required to publish an RFP or otherwise seek bids from vendors during the Detailed Design Phase. Where necessary, costs included in a FIM should be construction ready and as the result of a competitive bid.

IV. Final Investment Review:

The end result of the Detailed Design Phase would be the production of a FIM for Commissioners Court review and approval. Similar to the PIM, priority would be placed on succinctness and relevancy for Commissioners Court, with an individual project memo targeted as 3-5 pages in length. The FIM would be subdivided into three sections: Project Overview, Technical Assessment and Financial Impact with supporting addenda, including third-party reports, as appropriate.

Section	Responsible Party	Contents
Project Overview	Sponsoring Department	<ul style="list-style-type: none"> • Project description • Needs assessment • County strategic objectives met • Stakeholder input • Equity considerations • Project Scope PIM vs FIM
Technical Assessment	OCE, US, Purchasing and others as appropriate	<ul style="list-style-type: none"> • Alternatives considered • County human and financial resource requirements • External resource requirements • Environmental impact • Project timeline • Project development budget breakdown • Maintenance capital expenditure estimate • Result of any acquisition and/or procurement plan • Estimated impacts to operating budgets when project is completed.
Financial Impact	BMD	<ul style="list-style-type: none"> • Sources of funding • Impact to affordability model • Credit rating considerations • Ongoing operating budget impact

Coincident with the submission of the FIM, BMD will submit for Commissioners Court approval the proposed funding source(s) for the Project.

V. Implementation:

Upon approval of the FIM, the prospective project would be considered authorized by Court to proceed to a contracting and, ultimately, construction/implementation phases with the appropriate departments operationally involved: sponsoring department, OCE, US, and Purchasing. The process of approving and awarding of contracts through Commissioners Court would be unchanged and consistent with current law and practice. Upon project delivery, Commissioners Court approval would be sought to designate the project as “substantially complete” in accordance with County Auditor rules. At this point, BMD’s role would be to incorporate the project’s financial impact into the County’s long-term capital plan, monitor the project’s progress for inclusion for regularly scheduled CIP updates for Commissioners Court, and incorporate the operations and maintenance costs into the County’s operating budget once the project is completed.

Reporting & Oversight:

Once the new process has been implemented, departments would continue to be able to bring their projects for Preliminary or Final Investment Review approval to Commissioners Court throughout the fiscal year. CIP will remain a ‘living document’, if a sponsoring department has a project that is ready for consideration of Preliminary Investment Approval, that can come before any Commissioners Court meeting.

In addition to the individual project approval process outlined above, BMD is recommending a new cadence of regular quarterly updates and annual approval of the overall CIP. BMD will transmit quarterly updates to Commissioners Court outlining any newly approved projects or significant changes to previously approved projects. Alongside the annual operating budget approval process, BMD will submit a five-year CIP for approval by court that will consider overall debt levels, affordability, and the division of capital investment by goal area.

Activity	Frequency	Description
Preliminary Investment Approval	Ad Hoc – PIM may be brought to any Commissioners Court	<ul style="list-style-type: none"> 1-2 page PIM document acting as stage gate to Detailed Design phase <i>PIM requires Commissioners Court approval</i>
Final Investment Approval	Ad Hoc – FIM may be brought to any Commissioners Court	<ul style="list-style-type: none"> 3-5 page FIM document acting as stage gate to Implementation phase <i>FIM requires Commissioners Court approval</i>
Quarterly Update	Quarterly – In between annual CIP approvals	<ul style="list-style-type: none"> Status of all PIM-approved and FIM-approved projects, including comparison to approved timeline and budget Escalation of any project impediments requiring resolution by Commissioners Court action Assessment of resource availability relative to annually approved CIP capital allocation targets Summary of utilization of financing sources by type <i>Quarterly update is a transmittal to Commissioners Court not requiring approval</i>
Annual CIP Approval	Annually – Aligned with annual Operating Budget beginning FY'21-22	<ul style="list-style-type: none"> All content provided in Quarterly Update BMD recommendation on next fiscal year's total capital project allocation informed by debt service affordability model Summary of all projects in Planning phase <i>Annually revised 5-year CIP budget would require Commissioners Court approval</i>

A rolling individual project approval process with quarterly CIP update transmittals and an annually approved five-year CIP budget weighs the practical need to load balance execution-oriented departments' (e.g., OCE, US) project management capacity throughout the year with a desire to provide Commissioners Court with comprehensive and regular review and oversight of the CIP.

Change Management:

I. Departmental Impact

Should this new process be approved, and after an initial transition phase of several weeks, the practical impact to departments should be minimal and the consistent approach to all potential capital projects is designed to create a clear, repeatable process for all departments to navigate while fostering fairness and transparency to the process of resource allocation across departments. From a practical perspective, CIP will remain a 'living document' as departments

would continue to be able to bring their projects for Preliminary or Final approval to Commissioners Court throughout the fiscal year.

II. New Projects

Should these new policies and procedures be approved by Court, all proposed new capital projects would be subject to this new process effective immediately.

III. Existing Projects

The transition to the new procedure would require scoring and categorizing the 280+ projects that reside within the existing CIP. This process would involve evaluating each project and assessing, in BMD's judgment in consultation with sponsoring departments, OCE and US, where in each of the five stages a given project falls. Considerations for determining the stage of a given project would include, but would not be limited to:

- Has the project been formally approved by Commissioners Court?
- Is the project required by law, election (e.g., 2018 HCFC Bond Program) or court order?
- Is construction/implementation already underway?
- Have binding contracts with vendors been executed?
- Have financial encumbrances been incurred?
- Are projects underway within acceptable variances to originally approved budget?

The result of the scoring process would be to define the stage for each existing project, which likely would require multiple current projects to return to Commissioners Court for approval of a PIM or FIM as appropriate. Included in the CIP package, all CIP projects have been grouped into the following categories:

- Planning. These projects are in their initial conception phase and would require the production of a PIM to seek Commissioners Court authorization to progress.
- Detailed Design. These projects have met some of the scoring criteria above, community input has been solicited and outside experts have been engaged. These projects would require the production of an FIM to seek Commissioners Court authorization to progress.
- Implementation. These projects are sufficiently advanced that an FIM would be redundant. These projects would be incorporated into the regular CIP reporting and annual approval framework for Commissioners Court awareness and oversight.

Moving forward, BMD would work with relevant departments to produce the necessary PIMs and FIMs for Commissioners Court consideration. If approved, BMD proposes hosting a series of teach-ins as to how the new procedure impacts the project development process from the perspective of sponsoring departments.